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GST IN INDIA: AN OVERVIEW

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ABSTRACT

Traditionally India's tax regime relied heavily on indirect taxes. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations. But the Indian system of indirect taxation is characterized by cascading, distorting tax on production of goods and services which leads to hampering productivity and slower economic growth. There are endless taxes in present system few levied by Centre and rest levied by state, to remove this multiplicity of taxes and reducing the burden of the tax payer a simple tax is required and that is Goods and Service Tax (GST). This paper throws an insight into the Goods and Service Tax concept, advantages, disadvantages and international scenario.

KEY WORDS: GST in india, Goods and service tax, models of GST, Indirect tax.

Introduction

Tax policies play an important role on the economy. The main source of revenue for government of India is from tax. Direct and indirect taxes are the two main source of tax revenue. When the impact and incidence falls on same person it is called direct tax. When the impact and incidence falls on different person that is when burden can be shifted to other person it is called indirect tax. The indirect tax system is currently mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, octroi, central sales tax (CST) and value-added tax (VAT), among others. First Indirect Tax Reform occurred in India when the Modified Value Added Tax (MODVAT) was introduced for selected commodities in 1986 to replace the Central Excise Duty. The other reforms are the introduction of service tax in 1994, decision to introduce VAT in 1999, introduction of Constitution Amendment Bill on GST in 2011.

Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of “One Country One Tax”.

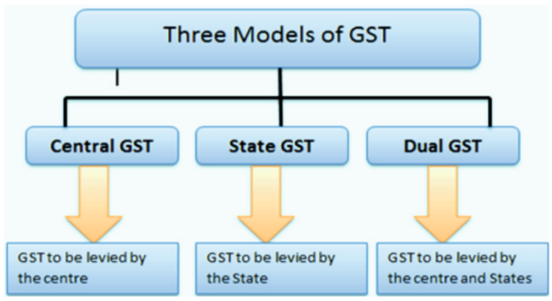
Why GST in the place of present regime?

In present regime there are separate laws for separate levy like excise duty, customs duty, central sales tax, value added tax etc. But in case of GST it is going to be a broad scheme which subsumes all the laws. The tax compliance is going to be easy as all the laws are subsumed and only one GST law to be implemented. The four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. The integration of tax laws in GST is expected to reduce the tax burden on the tax payer compared to present system where the tax payer's burden is high. Presently the tax is at two points i.e., when the product moves out of factory and other at the reatil outlet. But GST is to be levied at final destination of consumption and not at various points. This brings transparency and corruption free tax administration.

Brief Timeline of GST:

- GST was first mooted by Dr Manmohan Singh in the mid-1990s
- The GST was recommended by the Kelkar Task Force on FRBM act in 2005
- In 2011, the Constitution (115th Amendment) Bill was introduced in Parliament to enable the levy of GST.
- In December 2014, the Constitution (122nd Amendment) Bill was introduced in Lok Sabha.
- The Bill was passed by Lok Sabha in May 2015 and referred to a Select Committee of Rajya Sabha for examination.

Models of GST:



- **For Intra State Transactions:** In case of Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST needs to be deposited with Central Govt. and SGST with State Govt.
- **For Inter State Transactions:** Integrated Goods and Service Tax (IGST) shall be levied on Inter State transactions of goods and services which are based on destination principle. Tax gets transferred to Importing state. Moreover it is proposed to levy an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce, to be collected by the Central Government for a period of two years, and assign to the States where the supply originates. Exports and Supplies to SEZ units will be zero rated.

Under this total amount of GST for any goods or service will be distributed in both State and Central exchequers. According to our Union Finance Minister, GST will add 2 percent to the National GDP.

Example

Assuming the GST is kept at 5% then for Company XYZ (P) ltd, following scene arises.

XYZ PVT LTD			
MATERIAL COST	MANUFACTURING	PROFIT	FINAL COST
100000	20000	30000	115000+20000+30000 =165000
TAX @ 5% = 5,000	NO TAX	NO TAX	TAX@ 5%= 8250
FROM 8,250 TAX 5,000 IS ALREADY PAID HENCE REMAINING TAX IS 3,250			

Hence Double taxation was avoided for XYZ pvt ltd. When the taxation is simplified and compliance is improved it will result in better revenues. The manufacturing states like Maharashtra, Haryana, and Punjab are unhappy due to the replacement of the existing taxes with the GST which will lead to a revenue loss for the states. In this regard it has been decided to compensate the state for any

kind of revenue loss up to 5 years. 100% of loss in 3 years, 75% in 4th year and 50% in the 5th year will be compensated. The targeted impact of GST is the Goal of Double Digit Economic Growth. The GST replaces the below mentioned centre and state taxes:

Central Indirect Taxes & Levies	Central Excise Duty
	Additional Excise Duties
	Excise Duty levied under the Medicinal Preparations (Excise Duties) Act, 1955
	Service Tax
	Additional Customs Duty (CVD)
	Special Additional Duty of Customs
	Central Surcharge and Cess
State Indirect Taxes & Levies	VAT / Sales Tax
	Entertainment tax (other than the tax levied by local bodies)
	Central Sales Tax
	Octroi and Entry Tax
	Purchase Tax
	Luxury Tax
	Taxes on Lottery
	Betting and Gambling
	State Cesses and Surcharges

Advantages of GST:

1. GST is structured to simplify the current indirect system by removing multiple taxes. It creates India as a single market.

2. It taxes goods and services at the same rates so many disputes are eliminated on tax matter.

3. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.

4. The procedural cost is reduced due to uniform accounting namely, CGST, SGST, IGST have to be maintained for all types of taxes.

5. The reduced tax burden on companies will reduce production cost making exporters more competitive at national and international level.

6. More business entities including unorganized will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.

7. Many businesses create depots and go downs in different states simply because there is a difference in tax rates. Now that GST will come, this difference between states will vanish. It would help to remove the tax difference as a bias, thereby helping businesses.

Disadvantages of GST:

1. There will be dual control on every business by Central and State Government. So compliance cost will go up.

2. All credit will be available on from online connectivity with GST Network. Hence, small businesses may find it difficult to use the system

3. VAT and service tax on some products may become higher than the current levels.

4. States may lose autonomy to change their tax rates.

5. Manufacturing states would lose big revenue

6. Service sector may oppose because they have to register in every state with central and state government. So every business at all India level will have around 60 registrations while they are having just one today. Moreover their rates will also go up.

7. Retail business may oppose because their taxes will go up and they will also have to deal with Central Government now in addition to States.

8. GSTN may not work optimally for quite some time.

GST will Improve Ease of Starting a Business in India:

While starting a new business in India, businesses currently have to get VAT registration from the State's Sales Tax department. Since, each State has different procedures and fees for VAT registration, it is hard for businesses operating in multiple States to obtain and maintain compliance with VAT regulations.

With the implementation of GST in India, the procedure for GST registration would be centralized and standardized similar to service tax registration. Under GST regime, business would no longer have to obtain multiple VAT registration – as a single GST registration would be applicable across India. The procedure for obtaining GST registration would also be standardized, thereby improving the ease of starting a new business in India.

Integration of Multiple Taxes in GST Currently goods and products are taxed under the VAT regime implemented by State Government and services are taxed under the service tax regimen implemented by the Central Government. As VAT is implemented by State Governments, each of the State has different VAT rates, VAT regulations and VAT procedures – leading to complications. Further, in addition to VAT and Service Tax, there are various other tax regulations that businesses must comply with like Central Sales Tax (CST), Additional Customs Duty, Purchase Tax, Luxury Tax, etc.,

International Scenario:

In the 1954, France became the first country to adopt the GST. More than 150 countries have introduced GST/National VAT in some form. It has been a part of the tax system in Europe for the past 50 years and is the preferred form of the indirect tax in the Asia-Pacific region. There are different models of GST currently in force, each with its own peculiarities. While country such as Singapore virtually taxes everything at a single rate, some countries have more than one rate (a zero rate, certain exemptions and higher and lower rates). Brazil and Canada follow a dual system where both Union and State Governments levy GST. In some countries it is recoverable only on goods used in the production process and specified service. GST in China is applicable only to goods and the provision of repairs, replacement and processing services. The standard GST rates in most of the countries ranges between 15-20%.

Challenges:

In addition to the passage of the Bill, it is also imperative to have a robust country-wide IT network and infrastructure to make the implementation seamless. The IT network work is still in progress. The most important issue on which consensus eludes states and the Centre is regarding the states. States also fear that they will suffer heavy revenue losses.

There are certain state specific issues. For example, Maharashtra, earns more than 13,000 crore annually from octroi. Gujarat, on the other hand, earns about 5,000 crore from the CST. Agrarian states such as Punjab and Haryana earn more than 2,000 crore from purchase tax. Each of these states fears that they will lose these revenues once these levies get subsumed under GST.

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